



Kentucky Tax Alert



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Taxable Status of Tobacco Settlement Addressed

KRC has received several questions regarding the taxable status of payments received from the National Tobacco Grower Settlement Trust. KRC has received the following advice from the Internal Revenue Service concerning the federal taxation of the settlement funds.



Federal Tax Treatment

Reporting year of payments—Report payments received under the tobacco Master Settlement Agreement in the year received. Cash basis farmers who received 1999 payments in January 2000, should report the income in the year received, even though recipients received Forms 1099 for the 1999 tax year.

Taxability of payments—These funds are being paid to landowners, producers, and quota owners. The amounts represent compensation for lost profits and are taxable as ordinary income. In essence, they are similar to an agriculture subsidy payment.

Character of payments—Where the income is reported on the return, and its impact on self-employment tax, follows the character of the payments. If the payment is received by a farmer who historically raised the crop and reported the income on Schedule F, the settlement payments would be reportable as gross income on Schedule F and are subject to applicable self-employment tax.

However, if payments are received by a landowner or quota owner who historically leased the tobacco base, did not participate in the production of the crop, and reported the income from the crop as farm rental income on Form 4835, the settlements are reportable as farm rental income and thus not subject to self-employment tax.

Kentucky Tax Treatment

Payments from the Master Settlement Trust are not taxable on the Kentucky return. Growers and quota owners should use Schedule M, Line 13, Other *subtractions*, to make the adjustment. Identify as Tobacco Settlement income.

For more information, contact KRC's Individual Income Tax Branch at (502) 564-4581.

KET Call-In Show Scheduled for March 28

KRC's annual call-in show on Kentucky Educational Television (KET) will be aired on Tuesday, March 28, 2000, at 9 p.m. EST.

During this show, KRC staff members answer questions from the public about individual income tax issues for the 1999 tax year. Tax information and filing tips are also presented during the show, as are messages from KRC Secretary Mike Haydon and Taxpayer Ombudsman Betty Claycomb.



For more information, consult local TV listings or KET's Web site at <http://www.ket.org>.

Kentucky Counties Declared Federal Disaster Areas

As a result of flooding which occurred on Feb. 18-19, 2000, President Clinton has declared 11 counties in Kentucky federal disaster areas. Boyd, Fleming, Greenup, Lewis, Nicholas, and Rowan counties are eligible to receive aid both for individual/business and governmental disaster losses. Bath, Carter, Mason, and Robertson counties were approved for individual/business assistance only. Harrison County was approved for public assistance only.

Kentucky Division of Emergency Management personnel are working with local and federal officials to determine if additional counties have enough storm damage to be included in the federal disaster declaration.

In the affected counties, individual taxpayers who incurred flood damage have the option of deducting the loss on their return for either the year in which the disaster occurred (2000) or the return for the previous year (1999). Individual taxpayers from the designated counties may elect to claim any resulting loss on the 1999 tax return that is due April 17, 2000. If a 1999 return has already been filed, an amended return may be filed to claim the loss. The calculation of the deduction for a disaster loss follows the same rules as those of any other personal casualty loss. However, if the election is made to claim the loss in the preceding year (1999), the adjusted gross income (AGI) limitation is determined with respect to the preceding year's AGI.

For more information on flood damage tax deductions, call KRC's Individual Income Tax Assistance Section at (502) 564-4581. For information on other disaster relief assistance, call (800) 462-9029.



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Taxpayers Can Speed Refunds by Using Electronic Filing

Taxpayers who wish to receive their 1999 individual income tax refunds on a speedier basis should take advantage of KRC's electronic filing program.



KRC offers electronic filing in conjunction with the Internal Revenue Service (IRS). Electronic filing offers a faster turnaround for refunds than do paper returns mailed to KRC and processed manually. Last year, electronic filers received refunds in an average of 10 to 12 days, faster than anticipated, and electronic filers can expect similar results this year.

KRC offers direct deposit of refunds into taxpayers' accounts at banks or other financial institutions. Taxpayers may have their Kentucky refunds directly deposited whether or not they have their federal refunds directly deposited. Taxpayers may also choose separate accounts for direct deposit of federal and Kentucky refunds. Direct deposit is available **only** to electronic filers.

Taxpayers who file their Kentucky returns electronically must complete and sign Form 8453-K, Individual Income Tax Declaration for Electronic Filing, Form W-2/K-2, Wage and Tax Statement, and all supporting schedules must be attached to Form 8453-K.

For the 2000 filing season, preparers had the opportunity to select the frequency with which they mail completed Forms 8453-K to KRC, by

completing and returning the 8453-K Mailing Election Form. Completed Forms 8453-K may be mailed after electronic return acknowledgment is received from KRC, monthly, quarterly, or at the end of the filing season, based on this election. Preparers who did not submit an election must submit completed Forms 8453-K after electronic return acknowledgment is received from KRC. Preparers will be able to choose a different mailing frequency prior to the 2001 filing season.

Forms 8453-K and all necessary attachments should be mailed to: Kentucky Revenue Cabinet, P.O. Box 518, Frankfort, KY 40602-0518.

Balance due returns received prior to April 1, 2000, will be issued a *Statement of Liability* by KRC. Taxpayers should use the payment voucher included in their mailing packet to remit payment. However, taxpayers wishing to submit payment prior to receipt of the payment voucher or who file electronically after April 1, 2000, should submit payment using Form 740-V, Kentucky Electronic Payment Voucher. Payments and payment vouchers must be sent to KRC, postmarked on or before April 17, 2000, to avoid penalties and interest.

Taxpayers can obtain information on the status of their refund with KRC's Automated Refund and Tax Information System (ARTIS) by calling (502) 564-1600. ARTIS is automatically available for taxpayers who file returns electronically.

Common Errors on Individual Income Tax Returns

Following is a list of the most common errors which appeared on 1998 Kentucky individual income tax returns and continue to appear on 1999 returns. If errors are avoided, processing time is minimized and refunds, if due, are received more quickly.

✎ **Photocopied Forms Used**—Many taxpayers are using photocopied forms, or other forms not provided by KRC or generated by an approved software package. Use of photocopies or fax copies of forms delays processing and may delay refunds. Taxpayers should use **only** KRC-approved forms.

✎ **Wrong Standard Deduction Taken**—Many taxpayers are not taking the 1999 standard deduction of \$1,500, but instead continue to use last year's deduction of \$1,200. The standard deduction gradually increases each year until it reaches \$1,700 for the 2000 tax year and thereafter.

✎ **Labels Used Improperly**—Taxpayers should use the preprinted labels received with their tax forms or on postcards. Taxpayers should also make sure they place the labels in the proper locations. One label is intended for the return itself; the other should be used on the envelope in which the return is mailed to KRC.

Taxpayers should verify the information printed on the labels. If the address is incorrect, mark through it and write in the correct address. If the name is incorrect, do not use the label.

Preparers should ensure that the correct label is attached to the proper return. Some returns are received with other taxpayers' labels attached.

Use of preprinted labels does not increase the chances for an audit. Instead, it speeds processing and the mailing of any refund due the taxpayer.

✎ **Low Income Credit**—Taxpayers are using the Kentucky taxable income instead of the Kentucky adjusted gross income (AGI) as the basis for computing the low income credit. For married couples, the low income credit is based on the combined Kentucky AGI. Many taxpayers fail to take advantage of this credit when entitled to it.

✎ **Child and Dependent Care Credit**—Many taxpayers compute the credit incorrectly. The Kentucky child and dependent care credit is 20 percent of the federal child care **credit**, **not** the child care **expense**.

✎ **Underestimated Tax Penalty and Use of Form 2210-K**—Preparers should calculate any underestimated tax penalties for their clients and instruct them to pay the penalty when returns are filed. The minimum penalty is \$25. Underestimated tax penalties must be reported on Form 2210-K, which should be attached to Form 740. If Form 2210-K is attached, the appropriate box on Form 740 must be checked.

✎ **Withholding Statements not Attached**—Taxpayers should attach wage or other withholding statements to their returns. Be sure to attach Kentucky copies of the wage and tax statements. Local statements which do not list Kentucky withholding are being sent in error. Staple the statements to the top page *only* of the return.

✎ **Withholding Amounts Reported in Error**—Withholding amounts reported on tax returns should match the amounts reported on withholding statements.

✎ **Returns not Signed**—Taxpayers should be sure to sign their returns. Unsigned returns are sent back to taxpayers, causing delays in processing and payment of refunds which may be due.

✎ **Copies of Federal Returns not Attached**—When applicable, taxpayers must attach copies of federal returns and schedules. Make sure that the original Kentucky form is sent to KRC and the original federal return with schedules is sent to the Internal Revenue Service. KRC is receiving original copies of federal returns which are being mailed in error.

✎ **Wrong Envelope Used**—Taxpayers should use the blue envelope for refund returns and the yellow envelope for pay returns.

✎ **Tax Tables**—Taxpayers should recheck the tax table to ensure the correct line is used for their taxable income and number of tax credits claimed, and enter the correct amount of tax in the proper place on the return.

✎ **Incorrect Mathematical Calculations**—Taxpayers should review their calculations to ensure the totals are correct.

For assistance in completing your Kentucky individual income tax return, contact the Individual Income Tax Assistance Section, (502) 564-4581, or any of KRC's 11 taxpayer service centers.

KRC Offers Individual Income Tax Filing Assistance

KRC offers numerous opportunities for taxpayers to receive assistance in filing 1999 individual income tax returns. Following are sources of assistance.

In Frankfort

Assistance is available at KRC's central office at 200 Fair Oaks Lane, Frankfort, off Wilkinson Boulevard, until 4:30 p.m. EST.

Beginning April 3, 2000, and continuing until April 17, 2000, assistance will be available in person or by telephone each weekday evening until 6 p.m. EDT.

Telephone assistance may be obtained by calling (502) 564-4581.

At Taxpayer Service Centers

Assistance is available at any of KRC's 11 taxpayer service centers (TSCs) located throughout Kentucky, until 4:30 p.m. local time.

Beginning April 10, 2000, and continuing until April 17, 2000, assistance will be available in person or by telephone each weekday evening until 6 p.m. local time.

On Saturday, April 15, 2000, the Ashland, Northern Kentucky, and Owensboro TSCs will be open from 9 a.m. to 3 p.m. local time.

Addresses and phone numbers of Kentucky's 11 TSCs are:

Ashland, 41105-0687

P.O. Box 687
134 16th Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42101-2040

P.O. Box 2040
1502 Western Street
Telephone: (270) 746-7470
Fax: (270) 746-7847

Corbin, 40702-3298

P.O. Box 1298
Falls Road Plaza, Suite 5
1707 18th Street
Telephone: (606) 528-3322
Fax: (606) 523-1972

Hazard, 41702-4194

P.O. Box 419
233 Birch Street
Telephone: (606) 435-6017
Fax: (606) 435-6018

Hopkinsville, 42241-0695

P.O. Box 695
105 Hammond Plaza
4011 Ft. Campbell Blvd.
Telephone: (270) 889-6521
Fax: (270) 889-6563

Lexington, 40507-1556

301 East Main Street
Suite 500
Telephone: (606) 246-2165
Fax: (606) 246-2164

Louisville, 40202-2446

620 South Third Street
Suite 102
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky

Turfway Ridge Office Park
7310 Turfway Road, Suite 190

Florence, KY 41042
Telephone: (606) 371-9049
Fax: (606) 371-9154

Owensboro, 42302-0128

P.O. Box 128
401 Frederica Street, Building C,
Suite 201
Telephone: (270) 687-7301
Fax: (270) 687-7244

Paducah, 42002-2336

P.O. Box 2336
555 Jefferson Street, Suite 306
Telephone: (270) 575-7148
Fax: (270) 575-7027

Pikeville, 41501

Uniplex Center
126 Trivette Drive, Suite 203
Telephone: (606) 433-7675
Fax: (606) 433-7679



KRC/IRS Joint Assistance Programs

On Saturday, April 15, 2000, personnel from the Lexington and Louisville TSCs will be on hand at the Internal Revenue Service (IRS) offices in those respective cities from 8:30 a.m.–12:30 p.m.

Each Tuesday, IRS personnel will be on hand at the Corbin, Northern Kentucky, and Pikeville TSCs to assist with completing and filing federal income tax returns. IRS personnel will also be available in these three TSCs on Monday, April 17, 2000.

Guidelines for Requesting Extensions to File 1999 Kentucky Individual Income Tax Returns

Taxpayers may obtain an extension of time within which to file their Kentucky income tax returns by filing an Application for Extension of Time to File, Form 40A102. KRC also accepts a federal extension. If tax is due, attach a check made payable to the Kentucky State Treasurer to either Form 40A102 or a copy of the federal extension and mail by April 17, 2000. (A copy of the application for federal extension should not be mailed to KRC on April 17, 2000, unless tax is due.) When the Kentucky individual income tax return is filed, a copy of Form 40A102, the automatic federal extension, or approved federal extension must be attached to the Kentucky individual income tax return in order for a taxpayer to avoid a late filing penalty.

Because an extension of time to file a return does not extend the time to pay a tax liability, interest will accrue on the tax liability unpaid as of April 17, 2000, until paid. In addition to interest, KRC may assess a late payment

penalty. If a taxpayer can demonstrate that the delay in filing the return or remitting the payment is due to reasonable cause, penalties—but not interest—may be reduced or waived.

Individual income tax filers are also reminded that the first quarterly estimated payment for taxable year 2000 is due April 17, 2000.



Tax Refund Information Available by Phone

Information on Kentucky individual income tax refunds is available 24 hours per day through KRC's Automated Refund and Tax Information System (ARTIS). Call (502) 564-1600 from a touch-tone telephone to verify KRC's receipt of the return or when the refund was mailed.



To use ARTIS, taxpayers must know the Social Security number of the taxpayer which is listed first on the return, and the exact whole-dollar amount of the refund.

Acknowledgment of receipt of a return is available for taxpayers using both labels provided by KRC on their tax form packets or on postcards. Labels are provided for the envelope and the tax return.

For taxpayers not using both labels, acknowledgment may not be available until the return is processed. These taxpayers should wait eight weeks after mailing their return before calling ARTIS.

Callers who do not receive a refund mailing date from ARTIS should allow seven days before calling again.

ARTIS is automatically available for all taxpayers filing their individual income tax returns electronically.

Good Friday Office Closure

Pursuant to KRS 18A.190, all KRC offices will be closed the afternoon of Friday, April 21, 2000, in observance of Good Friday.

Kentucky Tax Alert is a bimonthly publication printed on recycled paper, the costs of which are paid from state funds.

Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

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Kentucky Revenue Cabinet
Mission Statement

To provide courteous, accurate
and efficient services for the benefit of
Kentucky and its citizens, and admin-
ister the tax laws of the Common-
wealth in a fair and impartial manner.